

## Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 FEA-01 CIAE-00 DODE-00 NSAE-00

NSCE-00 SSO-00 USIE-00 INRE-00 ERDA-05 AID-05 CEA-01

CIEP-01 COME-00 FPC-01 H-02 INR-07 INT-05 L-03 NSC-05

OMB-01 PM-04 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

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FM AMEMBASSY JAKARTA

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C O N F I D E N T I A L JAKARTA 2618

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: REVISION OF OIL PRODUCTION-SHARING AGREEMENTS: IIAPCO

REFS: (A) JAKARTA 2419, (B) JAKARTA 2463

1. I WAS VISITED FEBRUARY 26 BY DORMAN COMMONS, PRESIDENT OF NATOMAS COMPANY (PARENT COMPANY OF IIAPCO) WHO HAS COMPLETED DISCUSSIONS WITH GOI ON DEMAND FOR ADDITIONAL \$2.50/BARREL TAKE FROM IIAPCO, EFFECTIVE JANUARY 1, 1976.

2. COMMONS BRIEFED ME ON RESULTS HIS TWO MEETINGS WITH TIRTO UTOMO OF PERTAMINA AND WIJARSO OF MIGAS. HE BEGAN BY ASSUMING IBRD HAD PLAYED A ROLE IN GOI DECISION AND WE POINTED OUT WHAT WE KNEW OF IMF'S INVOLVEMENT AND INDICATED FACT THAT BANK HAD NOT BEEN INVOLVED IN THIS MATTER. COMMONS CONFIRMED THAT GOI SEEKING REDUCE IIAPCO'S PER BARREL COST RECOVERY ALLOWANCE- CURRENTLY CALCULATED AT \$4.95-BY ADDITIONAL \$2.50. COMMONS TOLD WIJARSO IIAPCO COULD NOT AGREE TO THIS AND THAT ANY DECISION REACHED WOULD HAVE TO BE UNILATERAL. COMMONS ARGUED THAT CUT IN PRODUCTION SHARING TERMS WOULD CREATE SERIOUS DISINCENTIVE FOR FUTURE INVESTMENT CAUSING CESSATION OF ALL NEW EXPLORATION AND  
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DEVELOPMENT WORK IN THEIR OFFSHORE AREA. HE STATED COMPANY HAD

EARMARKED VIRTUALLY ALL OF \$4.95/BARREL IN COST RECOVERY ALLOWANCE FOR REINVESTMENT IN E&P ACTIVITIES AS WELL AS INVESTMENTS REQUIRED FOR DOWNSTREAM MARKETING.

3. COMMONS RECOGNIZED EACH OF PRODUCTION SHARING COMPANIES HAD A DIFFERENT SITUATION SINCE THEY HAD BEEN UNABLE TO CONSULT WITH EACH OTHER, HE WAS NOT AWARE OF THE POSITIONS TAKEN BY OTHER COMPANIES IN THE DISCUSSIONS AND IT WAS POSSIBLE THEY MADE DIFFERENT PROPOSALS.

4. COMMONS SAID COMPANY WAS CONSIDERING GOING TO PRESIDENT SUHARTO DIRECTLY OR SEEKING SUPPORT OF "U.S. CONGRESSMEN WHO ARE FRIENDLY TOWARD INDONESIA." HE URGED THAT STATE DEPARTMENT TAKE MORE THAN A "PASSIVE" APPROACH IN THIS MATTER GIVEN HIGH STAKES INVOLVED FOR BOTH COUNTRIES.

5. I POINTED OUT THAT EMBASSY HAD INDEED MADE ACTIVE EFFORT TO STAY ON TOP OF THIS SITUATION, CITING MY MEETINGS WITH MINISTERS SADLI AND RADIUS, CHIEF NEGOTIATOR WIJARSO, PLUS OTHERS IN GOI. I INDICATED WE HAD REPEATEDLY STRESSED IMPORTANCE OF GOI SEEKING ADDITIONAL ADVICE FROM OUTSIDE EXPERTS. HOWEVER, POLITICAL CIRCUMSTANCES MADE IT DIFFICULT FOR TECHNOCRATS TO BACK DOWN AND ADMIT MISTAKE. I CAUTIONED THEM THAT SITUATION WAS DELICATE AND THAT TOO STRONG PRESSURE BY COMPANY EITHER WITH CONGRESS OR WITH GOI COULD TIP BALANCE TOWARD UNILATERAL DECREE.

6. COMMONS INTENDS TO RETURN TO STATES AND PLANS TO VISIT WASHINGTON ON TUESDAY, MARCH 2. HE INDICATED HE WILL ATTEMPT ARRANGE MEETING SAME DAY WITH DEPUTY ASSISTANT SECRETARY EDMOND FOR BRIEFING ON CURRENT SITUATION. COMMONS ALSO MENTIONED HE WILL TRY TO SEE BERNIE BELL OF WORLD BANK WHILE HE IS IN WASHINGTON.  
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## Message Attributes

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